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## City of Detroit

### CITY COUNCIL

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TO: Pamela Turner, Director  
Detroit Water & Sewerage Dept

FROM: Irvin Corley, Jr., Fiscal Analysis Director *IC*

DATE: May 5, 2009

RE: 2009-2010 Budget Analysis (Water Department)

Attached is our budget analysis regarding the Water Department's budget for the upcoming 2009-2010 Fiscal Year.

Please be prepared to respond to the issues/questions raised in our analysis during your scheduled hearing on **Thursday, May 7, 2009 at 3:00 p.m.** We would then appreciate a written response to the issues/questions at your earliest convenience subsequent to your budget hearing. Please forward a copy of your responses to the Councilmembers and the City Clerk's Office.

Please contact us if you have any questions regarding our budget analysis.

Thank you for your cooperation in this matter.

IC:ss

Attachment

cc: Councilmembers  
Council Divisions  
Auditor General's Office  
Joseph Harris, Chief Financial Officer  
Pam Scales, Budget Department Director  
Ervin Stewart, Budget Department Team Leader  
Arese Robinson, Mayor's Office

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## Water Department (41)

### FY 2009-2010 Budget Analysis by the Fiscal Analysis Department

#### Summary

The Water Department is an Enterprise Fund agency. The Water Department is administratively part of the Detroit Water and Sewerage Department (DWSD) while maintained as a separate fund in the City of Detroit accounting system.

The Mayor's Proposed Budget for 2009-2010 includes appropriations and revenues, each totaling \$809,629,354, to the Water Department, leaving a net tax cost to the City of \$0. This amount represents an increase of \$461,254,024 (132.4%) over the \$348,375,330 adopted budget in 2008-2009. The \$461,254,024 increase is due to the sale of bonds and an increase in water rates.

#### 2008-2009 Surplus/(Deficit)

There is no projected surplus or deficit for the Water Department of the DWSD for fiscal year 2008-2009.

#### **Water (41)**

| Budgeted Professional and<br><u>Contractual Services by Activity</u> | FY 2008-09<br><u>Budget</u> | FY 2009-10<br><u>Recommended</u> | Increase<br><u>(Decrease)</u> |
|--|-----------------------------|----------------------------------|-------------------------------|
| Administration Services  | \$ 4,320,134                | \$ 1,457,000                     | \$ (2,863,134)                |
| Public Affairs Group - Water   | \$ -                        | \$ 4,229,221                     | \$ 4,229,221                  |
| IT & Systems Integration - Water                                     | \$ 8,268,540                | \$ 6,135,003                     | \$ (2,133,537)                |
| Financial Services   | 2,415,000                   | 2,444,000                        | 29,000                        |
| Asset Management   | 14,560,170                  | 11,530,485                       | (3,029,685)                   |
| Plant Operations-Water   | 2,458,354                   | 2,033,151                        | (425,203)                     |
| Engineering Services-Water   | 65,000                      | 232,000                          | 167,000                       |
| Water-Capital & Debt Service   | -                           | -                                | -                             |
| <b>Total</b>   | <b><u>\$ 32,087,198</u></b> | <b><u>\$ 28,060,860</u></b>      | <b><u>\$ (4,026,338)</u></b>  |

#### Overtime

The Mayor's Proposed Budget for 2009-2010 includes \$5,524,249 for overtime, which is an increase of \$278,969 from the 2008-2009 budgeted amount of \$5,245,280. As of March 31, 2009, the Water Department has expended \$4,616,079 for overtime and has \$629, 201 of overtime remaining against their 2008-2009 budget.

#### Personnel and Turnover Savings

There are no projected turnover savings for the Water Department in the Mayor's Proposed Budget for 2009-2010.

| <u>Appropriation/Program</u>                             | <u>Redbook<br/>Positions<br/>FY 2008-09</u> | <u>Filled<br/>Positions<br/>3/31/2009</u> | <u>Mayor's<br/>Budget<br/>Positions<br/>FY 2009-10</u> | <u>Over/(Under)<br/>Actual to<br/>08/09 Budget</u> | <u>Mayor's<br/>Recommended<br/>Turnover</u> |
|--|---|---|--|--|---|
| <b>Water (41)</b>  |   |   |  |  |   |
| 411010 Office of the Director                            | 8   | 6   | 8  | (2)  | \$ -  |
| 411015 Process Networks and Scada Syste                  | 0   | 13  | 0  | 13   | \$ -  |
| 411020 Public Affairs Division                           | 33  | 23  | 0  | (10)   | \$ -  |
| 411021 Office of the Assistant Director - Pu             | 0   | 0   | 31   |  | \$ -  |
| 411080 Security  | 130   | 122                                       | 130  | (8)  | \$ -  |
| 411110 Information Systems Admin. Svcs.                  | 0   | 44  | 0  | 44   | \$ -  |
| 411200 Contracts & Grants                                | 28  | 23  | 28   | (5)  | \$ -  |
| 411220 Commercial Operations                             | 212   | 180                                       | 0  | (32)   | \$ -  |
| 411221 Commercial Operations                             | 0   | 0   | 201  | 0  | \$ -  |
| 411250 Meter Operations                                  | 87  | 59  | 0  | (28)   | \$ -  |
| 411251 Meter Operations                                  | 0   | 0   | 87   | 0  | \$ -  |
| 411280 Systems Operations Control                        | 0   | 0   | 0  | 0  | \$ -  |
| 411290 Water Technical Services                          | 0   | 0   | 0  | 0  | \$ -  |
| 411300 Operations Services                               | 0   | 0   | 0  | 0  | \$ -  |
| <b>00085 Administration</b>                              | <b>498</b>                                  | <b>470</b>                                | <b>485</b>   | <b>(28)</b>  | <b>\$ -</b>                                 |
| 412010 Ofc. of the Asst. Dir. Of Fin. Svc. Grp.          | 2   | 2   | 2  | 0  | \$ -  |
| 412020 Financial Administrative Services                 | 8   | 4   | 8  | (4)  | \$ -  |
| 412080 General Accounting Admin. Svcs.                   | 61  | 54  | 61   | (7)  | \$ -  |
| 412220 Purchasing  | 25  | 18  | 25   | (7)  | \$ -  |
| 412230 Material Management                               | 70  | 55  | 70   | (15)   | \$ -  |
| <b>00086 Financial Support Group</b>                     | <b>166</b>                                  | <b>133</b>                                | <b>166</b>   | <b>(33)</b>  | <b>\$ -</b>                                 |
| 414010 Ofc. of Asst. Dir. Asset Maintenance              | 7   | 0   | 7  | (7)  | \$ -  |
| 414130 Mechanical Opns. Administration                   | 280   | 216                                       | 289  | (64)   | \$ -  |
| 414200 Water Board Building                              | 46  | 29  | 46   | (17)   | \$ -  |
| 414240 Maintenance and Repair 2004                       | 454   | 335                                       | 454  | (119)  | \$ -  |
| 414360 Central Service Facility                          | 1   | 0   | 1  | (1)  | \$ -  |
| <b>00087 Facilities Management</b>                       | <b>788</b>                                  | <b>580</b>                                | <b>797</b>   | <b>(208)</b>                                       | <b>\$ -</b>                                 |
| 415010 Ofc. of Asst. Dir. of Water Opns.                 | 6   | 3   | 6  | (3)  | \$ -  |
| 415020 Water Works Park                                  | 49  | 42  | 48   | (7)  | \$ -  |
| 415030 Springwells Plant                                 | 48  | 36  | 47   | (12)   | \$ -  |
| 415040 Northeast Plant                                   | 30  | 19  | 30   | (11)   | \$ -  |
| 415050 Southwest Plant                                   | 31  | 26  | 31   | (5)  | \$ -  |
| 415060 Lake Huron Plant                                  | 27  | 21  | 29   | (6)  | \$ -  |
| 415390 Water Quality                                     | 15  | 12  | 15   | (3)  | \$ -  |
| <b>00088 Water Operations Group</b>                      | <b>206</b>                                  | <b>159</b>                                | <b>206</b>   | <b>(47)</b>  | <b>\$ -</b>                                 |
| 413010 Ofc. of Asst. Dir. of Eng. Svcs.                  | 1   | 1   | 1  | 0  | \$ -  |
| 413020 Engineering Administrative Support                | 137   | 82  | 137  | (55)   | \$ -  |
| <b>05817 Engineering Services-Water</b>                  | <b>138</b>                                  | <b>83</b>                                 | <b>138</b>   | <b>(55)</b>  | <b>\$ -</b>                                 |
| 411011 Asst Dir - Info Tech & Sys Integration            | 6   | 4   | 6  | (2)  | \$ -  |
| 411016 Process Networks and SCADA Sys                    | 19  | 0   | 19   | (19)   | \$ -  |
| 411115 Information Systems Administrative                | 49  | 22  | 49   | (27)   | \$ -  |
| 411285 Systems Operations Control                        | 35  | 0   | 35   | (35)   | \$ -  |
| 411295 Water Technical Services                          | 7   | 6   | 7  | (1)  | \$ -  |
| 411305 Operational Services                              | 10  | 9   | 10   | (1)  | \$ -  |
| <b>12448 Info Tech &amp; Systems Integration &amp; O</b> | <b>126</b>                                  | <b>41</b>                                 | <b>126</b>   | <b>(85)</b>  | <b>\$ -</b>                                 |

|                            |                     |                     |                     |                     |                    |
|----------------------------|---------------------|---------------------|---------------------|---------------------|--------------------|
| 41XXXX Leave of Absence    | 0                   | 22                  | 0                   | 22                  | \$ -               |
| 41XXXX Worker's Comp       | 0                   | (29)                | 0                   | (29)                | \$ -               |
| 41XXXX Unmatched Positions | <u>0</u>            |                     | <u>0</u>            | <u>0</u>            | <u>\$ -</u>        |
| <b>TOTAL</b>               | <b><u>1,922</u></b> | <b><u>1,459</u></b> | <b><u>1,918</u></b> | <b><u>(463)</u></b> | <b><u>\$ -</u></b> |

### Proposed Layoffs and Position Changes

The Mayor's Proposed Budget for 2009-2010 includes full-time equivalent positions of 1918, which is a decrease of four positions from the 1922 full-time equivalents in the 2008-2009 budget. The reduction of four is the net result of the elimination of 15 vacant positions and transfers of 11 apprentice positions from Human Resources into the department.

### Significant Funding Changes by Appropriation

| <u>Appro.</u> | <u>Program</u>       |   |
|---------------|----------------------|---|
| 00085         | Administration       | <p>The Mayor's Proposed Budget for 2009-2010 includes \$19,899,878 for Administration. This amount is \$9,228,152 less than the 2008-2009 Budget of \$29,128,030. The decrease is mainly due to the shifting of the Public Affairs Division, Commercial Operations and Meter Operations to a new appropriation in the Public Affairs Group.</p> <p>This decrease of \$9,228,152 is due to a \$5,064,089 decrease in Operating Services, \$5,060,785 decrease in Salaries and Wages, \$3,945,414 decrease in Employee Benefits, \$2,863,134 decrease in Professional and Contractual Services, \$1,020,201 decrease in Operating Supplies, and a \$1,650 decrease in Capital Outlays. These decreases are offset by an \$8,727,121 increase in Other Expenses.</p> |
| 12758         | Public Affairs Group | <p>The Mayor's Proposed Budget for 2009-2010 includes \$13,463,380 for the Public Affairs Group. There was no appropriation budgeted in 2008-2009. The divisions included in this appropriation was previously included in the Administration appropriation (Appropriation number 00085).</p> <p>This increase of \$13,463,380 is due to a \$6,014,611 increase in Salaries and Wages, \$4,229,221 increase in Employee Benefits, \$3,075,186 increase in Professional and Contractual Services, \$2,522,528 increase in Operating Services, \$652,421 increase in Operating Supplies, and a \$1,650 increase in Capital Outlays. These increases are offset by a \$3,032,237 decrease in Other Expenses.</p>   |

|       |  |  |
|-------|--|--|
| 12448 | Information Technology and Systems Integration and Operation Group | <p>The Mayor's Proposed Budget for 2009-2010 includes \$23,579,173 for Information Technology and Systems Integration and Operation Group. This amount is \$1,333,540 less than the 2008-2009 Budget of \$24,912,713.</p> <p>This decrease of \$1,333,540 is due to a \$2,133,537 decrease in Professional and Contractual Services, \$1,186,582 decrease in Operating Supplies, \$606,849 decrease in Employee Benefits, and a \$415,368 decrease in Salaries and Wages. These decreases are offset by a \$1,663,070 increase in Other Expenses, and a \$1,345,726 increase in Operating Services.</p>  |
| 00086 | Financial Services Group   | <p>The Mayor's Proposed Budget for 2009-2010 includes \$5,378,232 for the Financial Services Group. This amount is \$607,085 less than the 2008-2009 Budget of \$5,985,317.</p> <p>This decrease of \$607,085 is due to a \$738,600 decrease in Operating Services, \$236,164 decrease in Employee Benefits, \$158,479 decrease in Salaries and Wages, and a \$94,189 decrease in Operating Supplies. The decreases are offset by a \$591,347 increase in Other Expenses, and a \$29,000 increase in Professional and Contractual Services.</p>  |
| 00087 | Asset Maintenance Group  | <p>The Mayor's Proposed Budget for 2009-2010 includes \$39,389,835 for the Asset Maintenance Group. This amount is \$2,346,082 less than the 2008-2009 Budget of \$41,735,917. However, positions increase by nine.</p> <p>This decrease of \$2,346,082 is due to a decrease of \$3,029,685 in Professional and Contractual Services, \$2,331,088 decrease in Employee Benefits, \$2,057,702 decrease in Salaries and Wages, \$1,209,000 decrease in Operating Supplies, and a \$1,044,312 decrease in Operating Services. The decreases are offset by an increase of \$7,280,705 in Other Expenses, and a \$45,000 increase in Capital Outlays.</p> |
| 00088 | Water Operations Group   | <p>The Mayor's Proposed Budget for 2009-2010 includes \$56,322,435 for the Water Operations Group. This amount is \$3,801,187 more than the 2008-2009 Budget of \$52,521,248.</p>  |

|       |  |  |
|-------|--|--|
|       |  | <p>This increase is due to an increase of \$6,246,826 in Other Supplies, and an increase of \$159,462 in Other Expenses. The increases are offset by a decrease in Employee Benefits of \$993,408, a decrease of \$853,088 in Operating Services, a decrease \$425,203 in Professional and Contractual Services, and a decrease of \$333,402 in Salaries and Wages.</p>  |
| 05817 | Engineering Services – Water               | <p>The Mayor's Proposed Budget for 2009-2010 includes \$3,416,821 for Engineering Services. This amount is \$516,184 less than the 2008-2009 Budget of \$3,933,005.</p> <p>The decrease of \$516,184 is the result of a reduction in Employee Benefits of \$882,030, a decrease in Salary and Wages of \$326,575, and a decrease in Operating Supplies of \$95,167. These decreases are offset by increases in Other Expenses of \$495,995, an increase in Professional and Contractual Services of \$167,000, and an increase of \$124,593 in Operating Services.</p> |
| 00163 | Debt Service and Maintenance               | <p>The Mayor's Proposed Budget for 2009-2010 includes a total of \$158,104,200. This amount is \$9,382,000 more than the 2008-2009 Budget of \$148,722,200.</p> <p>The increase of \$9,382,000 is due to an increase of \$6,482,000 in interest and a \$2,900,000 increase for the retirement of debt principle.</p>   |
| 00583 | Water Extraordinary Repair and Replacement | <p>The Mayor's Proposed Budget for 2009-2010 includes a total of \$728,500. This amount is \$726,400 more than the 2008-2009 Budget of \$2,100.</p> <p>The increase of \$728,500 is due to an increase in miscellaneous expenses.</p>  |
| 05733 | Reserve Deposit                            | <p>The Mayor's Proposed Budget for 2009-2010 includes a total of \$3,607,100. This amount is \$1,392,900 less than the 2008-2009 Budget of \$5,000,000.</p> <p>The decrease of \$1,392,900 is due to a decrease of \$2,000,000 in Bad Debts Reserve, offset by an increase of \$607,100 in Miscellaneous expenses.</p>   |
| 12140 | Water Bond Fund Series 2007                | <p>The Mayor's Proposed Budget for 2009-2010 includes \$450,000,000 of Miscellaneous Expenses related to the proposed sale of Series 2007 Bonds. The current year's budget does not include Appropriation 12140.</p>   |

### Significant Revenue Changes

|       |                                    |  |
|-------|------------------------------------|--|
| 04826 | Revenue –<br>Water Receiving       | An expectant increase in water rates primarily increase this revenue by \$9.98 million.  |
| 00163 | Debt Service<br>and<br>Maintenance | <p>The Mayor's Proposed Budget for 2009-2010 includes revenue of \$4,545,000 for debt service and maintenance. This is an increase of \$771,900 more than the 2008-2009 Budget of \$3,773,100.</p> <p>This difference of \$771,900 is due to an increase from the earnings on investment.</p>                              |
| 00164 | Water System<br>Improvements       | <p>The Mayor's Proposed Budget for 2009-2010 includes revenue of \$52,600 for water system improvements. This is a decrease of \$740,300 from the 2008-2009 Budget of \$792,900.</p> <p>This decrease of \$740,300 is due to a decrease in the earnings on investment.</p>   |
| 12140 | Water Bond<br>Fund Series<br>2007  | <p>The Mayor's Proposed Budget for 2009-2010 includes revenue of \$458,277,300 from the Series 2007 Bonds. This is an increase of \$451,207,900 from the 2008-2009 Budget of \$7,069,400.</p> <p>The increase is due to a recommended bond sale of \$450,000,000 and a \$1,207,900 increase in earnings on investment.</p> |

### Issues and Questions

1. What adjustments will the department have to make to the budget If the Council does not pass the rate increase?
2. Is the bond sale contingent on the water rate increase? If the bonds cannot be sold, what adjustments will the department have to make to the budget?
3. Under Appropriation 00085 – Administration – why are Other Expenses increasing by \$8,717,121?
4. Why is the Public Affairs Group – Appropriation 12758 – being established and this group's function being removed from the Administration Division – Appropriation 00085?
5. Under Appropriation 00163 – Debt Service and Maintenance – Earnings on Investments are expected to increase \$771,900. How is this so when financial markets are on a downturn?

6. Under Appropriation 00087 – Asset Maintenance Group – why are Other Expenses increasing \$7,280,705?
7. Under Revenue Appropriation 00164 – Water System Improvements, why are earnings on Investments decreasing \$740,300?